

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 5334

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY LONDON

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EO 11652: N/A

TAGS: ECON, AU

SUBJ: AUSTRIAN ECONOMY IS SHOWING SIGNS OF  
SLACKENING PACE, WITH LATEST ESTIMATE FOR GNP GROWTH  
RATE THIS YEAR AT 2.5 PERCENT. ALTHOUGH UNEMPLOYMENT  
REMAINS ESSENTIALLY NEGLIGIBLE, AUSTRIA'S SIX-YEAR  
ECONOMIC BOOM APPEARS TO HAVE LOST ITS MOMENTUM.  
WITH NATIONAL PARLIAMENTARY ELECTIONS SCHEDULED FOR  
OCTOBER, THE RULING SOCIALIST GOVERNMENT IS BEGINNING  
TO RUN SCARED, AND HAS ANNOUNCED MEASURES TO STIMULATE  
INVESTMENT AND EXPORTS. END SUMMARY. END LIMITED OFFICIAL USE.  
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2. AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH LAST WEEK  
ISSUED ITS LATEST PROJECTIONS FOR AUSTRIAN ECONOMY  
IN 1975. REAL GNP EXPECTED TO GROW 2.5 PERCENT.  
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THIS IS A DOWNWARD REVISION FOR THE INSTITUTE'S

YEAREND ESTIMATE OF 3.5 PERCENT, AND IS CONSIDERABLY LOWER THAN ECONOMY'S ACTUAL PERFORMANCE IN 1974, WHICH WAS 4.5 PERCENT. ALMOST ALL MAJOR COMPONENTS OF GNP REVISED DOWNWARD IN INSTITUTE'S LATEST PROJECTIONS. PRIVATE CONSUMPTION, EXPECTED TO GROW 6 OR 7 PERCENT AS OF A FEW MONTHS AGO, NEW ESTIMATED AT ABOUT 5 PERCENT FOR THIS YEAR.

3. INSTITUTE REPORTS SECOND HALF 1974 RESULTS GENERALLY BELOW THOSE OF FIRST HALF, INCLUDING CONSUMPTION, INVESTMENT, EXPORTS AND IMPORTS. PRIVATE CONSUMPTION SLACKENED SIGNIFICANTLY LATTER HALF OF LAST YEAR, REFLECTING TO LARGE EXTENT CLIMATE OF UNCERTAINTY AMONG CONSUMERS, WHILE AT SAME TIME SAVINGS SOARED. CONSEQUENCE WAS UNEXPECTED SHORTFALL IN GOA REVENUES FROM CONSUMPTION TAXES WHICH AUGMENTED REVENUE DECLINES DUE TO INCOME TAX REDUCTIONS, RESULTING IN MOUNTING FINANCIAL PROBLEMS FOR GOVERNMENT.

4. INSTITUTE ESTIMATES THAT EXPORTS AND IMPORTS IN VALUE TERMS THIS YEAR WILL INCREASE 11.5 AND 8.5 PERCENT RESPECTIVELY OVER 1974. THIS CONTRASTS SHARPLY WITH LAST YEAR'S FIGURES, 31 AND 22 PERCENT RESPECTIVELY. IN REAL TERMS EXPORTS AND IMPORTS NOW ESTIMATED FOR CURRENT YEAR AT 3.5 AND 3 PERCENT RESPECTIVELY ABOVE LAST YEAR'S LEVELS.

5. CONSUMER PRICES EXPECTED TO RISE THIS YEAR BY 9 PERCENT. UNEMPLOYMENT EXTIMATED TO INCREASE BY 20,000, WHICH WOULD INCREASE UNEMPLOYMENT RATE FROM 1.3 PERCENT IN 1974 TO 2.1 PERCENT IN 1975

6. OUTLOOK FOR BALANCE OF PAYMENTS THIS YEAR IS MORE PROMISING. CURRENT ACCOUNT DEFICIT PROJECTED AT AS 10 BILLION (\$600 MILLION), ROUGHLY SAME AS IN 1974. HOWEVER, NET CAPITAL IMPORTS EXPECTED TO DOUBLE TO ABOUT AS 12 BILLION (\$700 MILLION). PROSPECTS ARE FOR NET INCREASE IN FOREIGN CURRENCY RESERVES BY AS 6 BILLION (\$360 MILLION). RESERVES IN 1974 AHD INCREASED BY AS 1.1 BILLION (DISREGARDING BANK LOSSES LIMITED OFFICIAL USE

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FROM EXCHANGE RATE FLUCTUATIONS). END UNCLASSIFIED.  
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7. COMMENT: RECESSION ABROAD AND MOOD OF UNCERTAINTY WITHIN AUSTRIA ARE MAJOR CAUSES OF SLACKENING PACE OF AUSTRIAN ECONOMY. PUBLIC ATTENTION HAS FOCUSED ON PARTICULAR FIRMS OR SECTORS WHICH HAVE BEEN HARD HIT, SUCH AS PLANTS PRODUCING BICYCLES AND GLASSWARE FOR

EXPORT AS WELL AS TEXTILES AND THE CONSTRUCTION INDUSTRY. AT SAME TIME, A GROWTH RATE OF ONLY 2.5 PERCENT THIS YEAR WOULD BE CONSIDERABLY BETTER THAN ESTIMATED 1.5 PERCENT GROWTH FORECAST FOR EUROPEAN OECD COUNTRIES. UNEMPLOYMENT, EVEN AT 2 PERCENT, IS ALMOST NEGLIGIBLE AND AUSTRIAN ECONOMY CONTINUES TO BE REMARKABLY FREE OF STRIKES. COUNTRY'S RESERVES AND BALANCE OF PAYMENTS SITUATION SURPRISINGLY STRONG. THE SIX-YEAR BOOM AUSTRIA HAS ENJOYED, HOWEVER, SEEMS DEFINITELY TO HAVE LOST ITS MOMENTUM.

8. WITH NATIONAL PARLIAMENTARY ELECTIONS COMING UP IN OCTOBER OF THIS YEAR, RULING SOCIALIST PARTY BECOMING CONCERNED ABOUT POLITICAL FALLOUT FROM SLACKENING ECONOMIC PACE. GOVERNMENT IS HOPING THAT UPTURN IN ECONOMIC SITUATION IN WEST GENERALLY HAS ALREADY BEGUN, AND IS BANKING PARTICULARLY ON A REVIVAL IN WEST GERMANY, AUSTRIA'S KEY TRADING PARTNER. MEANWHILE, HOWEVER, GOVERNMENT, WHILE CONTINUING ITS ANTI-INFLATIONARY STABILIZATION PROGRAM IN EFFECT SINCE 1972, THIS WEEK ANNOUNCED A PROGRAM OF MEASURES TO STIMULATE INVESTMENT AND EXPORTS (DETAILS SEPTEL). THESE MEASURES CAME AFTER MOUNTING DEMANDS FROM BUSINESS SECTOR FOR MEASURES TO STIMULATE ECONOMY. OPPOSITION HAS ALREADY ATTACKED MEASURES JUST ANNOUNCED ON GROUNDS THAT THEY LIKELY TO PRODUCE MORE INFLATION RATHER THAN INCREASING WEAKENED DEMAND.

9. RUMORS EARLIER THIS WEEK THAT SCHILLING WOULD BE DEVALUED 2 TO 3 PERCENT FIRMLY DENIED BY AUSTRIAN NATIONAL BANK PRESIDENT KLOSS APRIL 8. FINANCE MINISTER ANDROSCH ALSO DENIED THAT SUCH ACTION BEING CONTEMPLATED.

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10. KREISKY GOVERNMENT HAS REITERATED MANY TIMES THAT WHILE FIGHTING INFLATION IS MAJOR GOVERNMENT AIM, MAINTAINING FULL EMPLOYMENT TAKES PRECEDENCE. IN AN ELECTION YEAR THIS IS DOUBLY IMPORTANT FROM SOCIALIST STANDPOINT. END LIMITED OFFICIAL USE. BUCHANAN

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## Message Attributes

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